



X822/77/11

Economics

Duration — 2 hours 30 minutes

Total marks — 80

SECTION 1 — 30 marks

Attempt ALL questions.

SECTION 2 — 25 marks

Attempt the question.

SECTION 3 — 25 marks

Attempt ONE question.

Write your answers clearly in the answer booklet provided. In the answer booklet, you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.



SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

Bank of England considers using negative interest rates for the first time to help meet its inflation target

- Members of the Monetary Policy Committee (MPC) have openly hinted that, in addition to cutting interest rates to a new historic low and undertaking more rounds of **quantitative easing** (QE), it might be necessary to introduce negative interest rates in the UK for the first time. This policy is considered a last resort in the face of other monetary policy measures becoming less effective
- 5 because the Bank of England base rate is at a historically low level. However, given that the rate of inflation fell to 0.2% in August 2020, and that there is unprecedented uncertainty about the future of the UK economy, the MPC may have no choice but to introduce this untried policy to reduce the chances of the UK slipping into **deflation**. Negative interest rates have already been used in other countries with varying degrees of success.
- 10 Negative interest rates work through various channels including affecting the level of saving, borrowing and the exchange rate. At one level the policy mainly impacts the relationship between the Central Bank and retail banks, but negative interest rates can be passed on to retail bank customers. The Bank of Japan adopted negative interest rates in 2016 to boost spending and drive down the value of the Japanese Yen against other currencies. As with other countries who have
- 15 experimented with negative interest rates, it is impossible to disentangle the impact of the policy from broader economic factors. Business investment in Japan did pick up, but this cannot purely be attributed to ‘ultra-cheap’ loans. Some of the investment might have taken place anyway, such as that linked to the Tokyo Olympics and investment in new technologies to cope with Japan’s ageing population. Despite negative interest rates the Japanese Yen rose in value, which had
- 20 adverse consequences for this export-reliant economy. The demand for the Yen has remained strong because it is considered safe for investors.
- The MPC members seem to be divided over the introduction of negative interest rates in the UK because, despite some advantages, it can cause serious problems for the banking sector. It may be as ineffective as other types of monetary policy, in some circumstances. Many economists and
- 25 central bankers are well aware of the limitations of monetary policy and, given the precarious state of the UK economy, it can only form one part of the policy response.

Questions

1. Describe what is meant by the following terms.
 - (a) Quantitative easing (line 2) 2
 - (b) Deflation (line 8) 1
2. Explain why lowering interest rates might have limited economic impact. 4
3. Describe the ways in which the introduction of a negative interest rate by the Bank of England might influence the level of saving and borrowing. 5
4. Explain the reasons the Bank of Japan hoped that the Japanese Yen would fall in value. 3
5. Describe possible impacts of an ageing population on an economy. 4
6. Discuss why deflation is sometimes considered a worse problem than inflation. 5
7. (a) Describe the current deflationary and inflationary pressures in the UK economy. 4
(b) Justify what you believe should be the next decision by the MPC on Monetary Policy. 2

[Turn over

SECTION 2 — 25 marks

Attempt this question

8. Global warming and climate change are considered a significant threat to human existence, and are examples of market failure on a global scale.
- (a) Explain, using a diagram, why climate change is considered to be an example of market failure. 7
 - (b) Evaluate **one** national and **one** international economic measure that might be taken to reduce climate change. 6
 - (c) Explain, using a diagram, why a firm in a perfectly competitive market is both productively and allocatively efficient in the long run. 6
 - (d) Discuss the advantages and disadvantages of monopoly. 6

SECTION 3 — 25 marks

Attempt ONE question

9. In November 2020 the Chancellor, Rishi Sunak, announced that public borrowing was forecasted to reach £394 bn for the year, due to the economic implications of the Covid-19 pandemic.
- (a) Describe the measures which the UK government has taken to support employment and businesses since April 2020. 6
- (b) Discuss measures the UK government could undertake to encourage economic growth or minimise the size of a recession. 9
- (c) Evaluate the possible economic implications for the UK economy of running a persistently high budget deficit. 10

OR

10. In October 2020 the Institute for Fiscal Studies said that tax rises of more than £40 billion a year were ‘all but inevitable’ in the future. This came at a time when the UK unemployment rate had risen to its highest level in three years, with young people in particular being hard hit by the pandemic’s disruption to the labour market.
- (a) Describe the economic costs of unemployment to the individual and to the UK economy. 8
- (b) Discuss policies which the UK government might introduce to address the issue of youth unemployment. 8
- (c) Analyse the possible economic consequences of the UK government increasing the rates of income tax and VAT. 9

OR

11. Amidst growing concerns over the impact of technology on the labour market, the UK Prime Minister, Boris Johnson, insisted in October 2020 that the ‘levelling-up’ agenda had not been put to one side in the national struggle against Covid-19. This came at a time when work began on the HS2 rail project.
- (a) Describe the possible economic advantages and disadvantages of building HS2. 6
- (b) Evaluate policies the government could introduce to reduce income and/or wealth inequality in the UK. 10
- (c) Discuss possible advantages and disadvantages of the ‘gig’ economy. (You may consider individuals, firms and the UK economy). 9

OR

12. In April 2020 the International Monetary Fund slashed its forecast for global economic growth in response to the Covid-19 pandemic. It said that the 'Great Lockdown' would cause a dramatic drop in economic activity that would be far more painful than the recession that followed the banking crisis of 2008.

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| (a) Describe the roles of the World Trade Organisation and the International Monetary Fund. | 6 |
| (b) Evaluate the possible economic implications of the pandemic on globalisation. | 10 |
| (c) Apart from aid, explain other measures that could be taken to raise economic growth rates in developing countries. | 9 |

[END OF QUESTION PAPER]

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